

Message Text

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ACTION ARA-10

INFO OCT-01 EUR-12 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 EB-07 FPC-01 H-02

INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01 PM-03 SAM-01

OES-03 SP-02 SS-15 STR-01 TRSE-00 FRB-03 PA-01 PRS-01

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 4431

AMEMBASSY CARACAS

INFO AMEMBASSY QUITO

USMISSION OECD PARIS

LIMITED OFFICIAL USE LIMA 2377

EO 11652: N/A

TAGS: ENRG, PFOR, PE, EC, VE

SUBJECT: PERUVIAN-VENEZUELAN-ECUADOREAN OIL DEAL-
CHANGE IN DOMESTIC PETROLEUM SUBSIDY POLICY

REF: CARACAS 3162

1. PERUVIAN VICE MINISTER OF ECONOMY AND FINANCE CONFIRMED
TO EMBASSY OFFICERS ON MARCH 21 TERMS OF TRIANGULAR OIL
DEAL AS SPELLED OUT IN CARACAS 3162. HE SAID THAT PAYMENT
OF DIFFERENCE BETWEEN \$6 PRICE AND CURRENT MARKET PRICE
WILL BE DEFERRED FOR THIRTY MONTHS FROM DATE OF SHIPMENT
AND WILL BE AT REGULAR COMMERCIAL RATES OF APPROXIMATELY
EIGHT PERCENT. HE NOTED THAT WITH THREE-FOURTHS OF
PERUVIAN OIL TEMPORARILY SUBSIDIZED WITH FAVORABLE TERMS,
GOP WILL ANNOUNCE DROPPING OF TWO-DAY DRIVING BAN SOON
AND INSTITUTE TWO -TIER GASOLINE PRICE SYSTEM AT THAT
TIME, WITH PRIVATE VEHICLE OWNERS PAYING HIGHER NON-
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SUBSIDIZED PRICE. PUBLIC TRANSPORT WILL CONTINUE TO

RECEIVE SUBSIDIES. (THE FOLLOWING DAY MINES MINISTER FERNANDEZ MALDONADO ANNOUNCED THAT TWO-DAY DRIVING BAN WILL BE LIFTED BEFORE THE END OF JUNE AND THAT A TWO-TIER SYSTEM WILL BE PUT INTO EFFECT. HE SAID THAT PUBLIC TRANSPORT WOULD NOT PAY HIGHER PRICES AND THAT STEPS WOULD BE TAKEN TO AVOID THE CREATION OF A BLACK MARKET IN GASOLINE.)

2. COMMENT: RECENT WORLD BANK REPORT (REPORT 655-PE) STRESSES NEED FOR PERU TO REFORM PETROLEUM SUBSIDY POLICY, AND GOP HAS BEEN PLANNING TO ANNOUNCE ITS POLICY, AS MINES MINISTER DID LAST WEEK, PRIOR TO PARIS CONSULTATIVE GROUP MEETING APRIL 16 IN ORDER TO FAVORABLY IMPRESS POTENTIAL DONOR COUNTRIES WITH ITS INTENTIONS TO USE RESOURCES MORE RATIONALLY. MINISTER'S PRONOUNCEMENTS APPEAR TO BE AN EFFORT TO PREPARE PUBLIC FOR THE CHANGE WHEN IT OCCURS.

SUCH A CHANGE COULD BE INTERPRETED AS A VICTORY FOR THE ECONOMIC TECHNICIANS IN THE MINISTRY OF FINANCE WHO HAVE LONG OPPOSED THE LOW GASOLINE PRICES. UNTIL RECENTLY, HOWEVER, PRESIDENT VELASCO REFUSED TO LISTEN TO ADVICE ON THIS SUBJECT SINCE HE ALLEGEDLY WAS CONCERNED ABOUT INCREASING COSTS IN THE VITAL TRANSPORT SECTOR (AND PERHAPS MORE IMPORTANTLY WAS WARY OF THE REACTION OF THE VOLATILE TRUCK, BUS, AND TAXI DRIVERS).

HOW, HOWEVER, IT APPEARS HE HAS ACCEPTED HIS TECHNICIANS' ADVICE, WHICH IS SYMBOLICALLY IMPORTANT IN THE PERUVIAN CONTEXT SINCE IT INDICATES THAT GOP IS CONCERNED ABOUT ECONOMIC SITUATION, NEEDS MASSIVE DONOR CAPITAL, AND IS WILLING TO MAKE CONCESSIONS TO ECONOMIC FORCES IN ORDER TO PUT BEST FACE FORWARD AT PARIS, AS WELL AS TO RATIONALIZE RELATIVELY INEFFICIENT GASOLINE POLICY.

DEAN

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